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C O N F I D E N T I A L SECTION 01 OF 02 SARAJEVO 001309

SIPDIS

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TAGS: [ECON](#) [ENRG](#) [PREL](#) [BK](#)

SUBJECT: DODIK THREATENS UNILATERAL ACTION IN ENERGY SECTOR

REF: A. SARAJEVO 152

[1](#)B. SARAJEVO 570

Classified By: AMB Charles English for reasons 1.4 (B) and (D)

[1](#)1. (C) Summary: A challenge by Republika Srpska (RS) PM Dodik to the state-run electricity transmission company (TRANSCO) has come to the fore again. The issue had first surfaced in February when Dodik proposed reorganizing TRANSCO along entity lines. The proposal lay dormant until July 18, when Dodik sent a letter to Federation PM Brankovic demanding a response within 10 days to Dodik,s reorganization proposal. If he did not receive a response, he threatened to create his own RS electricity transmission company. As a shareholder of TRANSCO, Dodik has the authority to make proposals to improve company operations. However, Dodik,s proposal would ultimately lead to the dissolution of the company by creating ethnically-based &sub-transcos8 and returning certain assets to the ethnically-based Elektroprivredas (electricity generation and distribution companies). HighRep Lajcak warned Dodik that withdrawing from the 2003 agreement to transfer assets to the state is strictly forbidden. In response, Dodik agreed to not act unilaterally, and work with PM Brankovic to improve TRANSCO. Dodik,s actions on TRANSCO are similar to previous attempts to take control of state competencies, and his agreement on August 3 to not act unilaterally does not allow the International Community (IC) to rest easy. End Summary.

[1](#)2. (SBU) On July 18, in a letter to Prime Minister of the Federation Brankovic, Prime Minister of the Republika Srpska Milorad Dodik threatened to create his own electricity transmission company if PM Brankovic did not answer his proposal to re-shape the state-managed transmission company, Elektroprijenos BiH (TRANSCO), within ten days. PM Dodik, as one of two shareholders of TRANSCO, had submitted a proposal in February of this year to reorganize TRANSCO by creating three &sub-TRANSCOs8 and transfer the 110kV network back to the three ethnically-managed Elektroprivredas. Dodik,s recommendations would ultimately result in the dissolution of the state-run company, reverting back to ethnically-based management of electricity transmission.

[1](#)3. (C) As one of the two owners/shareholders of the company, Dodik is within his legal right to make proposals for company reorganization. Instead of responding with a counter-proposal that would work in the interests of the Federation, PM Brankovic chose to ignore Dodik,s proposal for more than six months, leading to the heated, public response from Dodik last week. Energy insiders tell us that PM Brankovic has simply not focused on the TRANSCO issue, allowing his Minister of Energy, Mines and Industry Vahid Heco to (mis)handle the issue. Minister Heco and RS Minister of Energy Puhalic met on July 31 to discuss TRANSCO, but

nothing was resolved. They promised to meet again in September to discuss the issue.

INTERNATIONAL RESPONSE) EC NEEDS TO STEP UP

14. (C) Following Dodik,s initial proposal at the Shareholder,s meeting in February, the international community agreed that his proposal must be blocked in an effort to save the company. Although the IC agrees that the company is poorly-managed, trying to fix management problems within the existing structure is a better option than total dissolution of the company and a separation of assets along ethnically-based lines. Key IC representatives (including the U.S. Embassy) discussed a plan to send a letter to the two PMs voicing concern over the proposal. However, at the last minute, the EC decided to withdraw its support of the joint letter, and no high-level communication was sent. (Note: There were, however, later efforts in which USAID was involved to get the TRANSCO stakeholders together to discuss alternative solutions. End note.) On Monday, OHR representatives expressed their frustration with the EC,s inability to take over responsibilities from the OHR as was intended during this &transition8 period. They pointed to the TRANSCO issue as one of many examples where the EC has yet to initiate action to preserve BiH state stability. HighRep Lajcak intends to initiate another attempt to get the EC involved in the TRANSCO issue following the summer holidays.

OHR LAJCAK,S PUBLIC AND PRIVATE WARNING TO DODIK

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15. (C) Last week, in a rarely-seen-these-days demonstration of public assertiveness, the HighRep Lajcak warned &Bosnian officials8 in the media that withdrawing from prior transfer agreements (transferring management from the entities to the state) would not be tolerated. According to OHR representatives, Lajcak met with Dodik on August 3 and raised the TRANSCO issue. Dodik assured Lajcak that he would take no unilateral action to dissolve the company, and agreed to work with PM Brankovic to resolve the company,s problems.

COMMENT: JUST BLUSTER OR A TRUE THREAT?

16. (C) According to OHR representatives, Dodik,s threat to dissolve TRANSCO and create a RS-independent electricity transmission company represents his first concrete attempt to withdraw from a formal agreement which transferred competencies from the entities to the state. They liken this attempt by Dodik to attack an incompetent state institution to his move to resolve the frozen foreign currency asset question (REF A and B). In that case, lack of international resolve to defend the existing law and the slow movement of the state to respond, allowed Dodik to successfully issue bonds for holders of frozen foreign assets. It would be incredibly expensive to create a separate RS transmission company and in the long run not profitable for the RS as they would have to continue to negotiate rights to transfer electricity through the Federation to certain external markets. However, even if the economics of this decision do not make sense, it falls right in line with Dodik,s previous attempts to dismantle other state-run institutions. Based on prior experience with PM Dodik, his August 3 agreement to work in cooperation with PM Brankovic to reorganize TRANSCO does not mean this issue is resolved. In fact, he will likely continue to work, with or without Federation cooperation, to destroy the company and transfer state transmission assets back to RS control.
ENGLISH